

DW 01-193

WHITE ROCK WATER COMPANY, INC.

Petition for Increase in Permanent Rates

Order Approving Stipulation of the Parties and  
Granting Recovery of Rate Case Expenses

O R D E R N O. 24,033

August 9, 2002

**APPEARANCES:** Jordan, Gfroerer & Weddleton by David W. Jordan, Esq. on behalf of White Rock Water Company, Inc.; and Marcia A. B. Thunberg, Esq. on behalf of the Staff of the New Hampshire Public Utilities Commission.

**I. BACKGROUND AND PROCEDURAL HISTORY**

White Rock Water Company, Inc. (White Rock or the Company), a small water system serving approximately 96 customers in a limited area of the Town of Bow, New Hampshire, filed with the New Hampshire Public Utilities Commission (Commission) on November 27, 2001 a request for increased rates along with a revised tariff page and supporting documentation. White Rock proposes an overall increase in the Company's annual revenues by an amount of \$16,864 or 32 percent, effective December 27, 2001.

By Order No. 23,874 (December 21, 2001), the Commission suspended the proposed rates and scheduled a prehearing conference and technical session for January 15, 2002. No requests for intervention were filed. During the technical session, the Company and the Commission Staff (Staff)

agreed upon a procedural schedule that the Commission approved by Order No. 23,903 (January 25, 2002).

Staff conducted discovery and propounded data requests. On April 9, 2002, Staff submitted the direct testimony of Douglas W. Brogan, Jayson P. Laflamme and James L. Lenihan. On May 20, 2002, the Company and Staff met to discuss settlement. Settlement discussions produced a Stipulation of the Parties (Stipulation) which was signed by the Company and Staff on June 17, 2002 and filed with the Commission on June 18, 2002. In addition, on June 18, 2002, the Company submitted rate case expenses and supporting documentation for Staff's review. The Company requested recoupment of \$9,982.75 in rate case expenses.

On June 24, 2002, the Commission heard testimony in support of the Stipulation. At the request of the Company and Staff, the Commission deferred consideration of the rate case expenses pending review and recommendation by Staff. Following the hearing, the Company and Staff met to discuss the rate case expenses. The Company and Staff reached agreement on the Company recouping \$9,000 in rate case expenses. Consistent with past Commission practice regarding recovery of rate case expenses, Staff recommended a surcharge on customer bills. Staff further recommended that such recovery be accomplished over

eight quarters and Staff submitted this proposal to the Commission for approval on June 28, 2002.

## **II. STIPULATION OF THE PARTIES**

### **A. Permanent Rate Increase**

The Company and Staff agreed to a permanent rate increase, based on a 2000 test year, that would provide the Company with an increase in its annual revenues of \$6,119 or 11.67 percent. Staff and the Company agreed to utilize the following components in its calculations: a rate base amount of \$94,734; an adjusted net operating income amount of \$3,855; a rate of return of 9.98 percent; a deficiency before taxes of \$5,599; and a tax factor of \$520 or 91.50 percent.

### **B. Step Adjustment**

The Company and Staff agreed to one step adjustment to the permanent rates to be effective not later than with services rendered on and after the effective date of the Commission's permanent rate order in this proceeding. The proposed step adjustment is intended to provide for recovery of the cost of a certain well deepening project that was completed after the close of the historical test year, but before the revised tariff was filed. The parties agreed to an increase in the revenue requirement resulting from the step adjustment in an amount of \$1,883 or 3.21 percent. In calculating the step adjustment, the

Company and Staff agreed to utilize the following components: an addition to rate base of \$13,089; a rate of return of 9.98 percent; a net operating income requirement before income tax adjustment of \$1,306; a tax factor of \$122 or 91.50 percent; and an annual depreciation expense figure of \$455.

### **C. Rate Design**

The Company and Staff agreed that the increase in rates shall apply only to the consumption charge. The resultant new rate will consist of the existing customer charge of \$20.00 per quarter plus the new consumption charge of \$6.94 per hundred cubic feet of water usage. The Staff indicated at hearing that this rate design approach was selected in order to encourage conservation of water in a system that continues to have supply concerns.

### **D. Engineering Issues**

White Rock and Staff agreed to a number of requirements to be undertaken by the Company in order to address a number of engineering concerns raised by Staff. The Stipulation requires the Company to seek access to adjacent properties for exploration purposes, and to employ a hydrogeologist and an engineer to examine possible sites as well as the associated costs. The Company is required to report its findings to the Commission by July 1, 2004.

The Stipulation also requires the Company to seek grant funding available through the U.S. Environmental Protection Agency that could result in the upgrading of its arsenic treatment.

In order to alleviate customer impacts and reduce system leakage, the Stipulation requires the Company to investigate whether system pressures could be reduced to a more acceptable range. The Stipulation also requires review of the location and pressure settings of the system's pressure-reducing valves. The Company is required to report its findings relating to the pressure issue to the Commission within six months. Finally, the Company is required to provide reports on a biannual basis through July 1, 2004 pertaining to lost water, progress on its supply investigation, as well as any other capital improvements that it may undertake.

#### **E. Management Issues**

The Company currently does not carry property or liability insurance coverage. The Stipulation requires the Company report to the Commission, on or before December 31, 2002, on the availability of third party and two party insurance for the Company and/or its assets, the cost of such insurance, and if the Company has chosen not to purchase such insurance, the reasons for the decision.

**F. Effective Date**

The Stipulation recommends the new rate become effective for all water consumed after the date of the Commission's order fixing the rate. In bills rendered after the date of such order, the Company shall pro rate the consumption charge on a per diem basis.

**III. COMMISSION ANALYSIS**

The record indicates White Rock originally requested an increase in customer rates from \$5.99 to \$8.10 per hundred cubic feet. This increase would have raised present rates by 32 percent. The rates proposed in the Stipulation would result in an annual bill of approximately \$690.72. (Hearing Transcript of June 24, 2002 ("6/24/02 Tr.") at 9 lines 4-9.) This is an \$83 or 11.67 percent increase over present levels for an average residential user. (6/24/02 Tr. at 9 line 8)(Exh. 2, Stipulation, Sch.1).

The Commission is authorized to fix rates after notice and hearing pursuant to RSA 378:7. The Commission is obligated to investigate the justness and reasonableness of the proposed rate. *Eastman Sewer Company, Inc.*, 138 N.H. 221, 225 (1994). To this end, we have considered the Stipulation as well as the supporting testimony provided at the hearing and we find the terms of the Stipulation consistent with the public interest.

Staff testified at the hearing that out of the 10 water utilities Staff surveyed, White Rock had the highest level of Administrative and General Expenses and the second highest Operations and Maintenance Expenses per customer. 6/24/02 Tr. at 19, lines 3-17, citing Exh. 5, Att. JPL-2.

We concur with Staff's concerns regarding the relative level of the Company's Operation and Maintenance Expenses and more specifically its Administrative and General expenditures. We see this as a major driving force behind the Company's rate levels. We affirm Staff's urgings to the Company that it strive towards greater efficiencies in the expenditures it incurs to more effectively operate this water system.

In addition to a permanent rate increase, the Stipulation also proposes a step adjustment. The Commission has approved step adjustments in cases where significant investments in plant are likely to cause an earnings deficiency for the utility. Step adjustments are best characterized as addressing expenditures of an extraordinary nature. *Northern Bare Steel Replacement*, 84 NH PUC 573, 575 (1999). Here, the purpose of a step adjustment is to allow the Company recovery on a well deepening project that occurred subsequent to the test year of 2000. For a company this size, this can be considered an extraordinary expense. The step adjustment will enable the

Company to maintain a reasonable return while precluding the need for another rate case filing. For this reason, we believe that allowance of the proposed step adjustment is consistent with our obligations under RSA 378:7 of ensuring just and reasonable rates.

At the hearing, Staff expressed concern over White Rock's future water supply. Testimony by Mr. Brogan in support of the Stipulation noted that the current safe yield of the system's three wells appears to be less than half of Department of Environmental Services requirements, and that mandatory usage restrictions have been imposed for at least the last eight years. Mr. Brogan also indicated that all three wells on the system's small well lot have been substantially deepened over approximately the same timeframe in an effort to secure additional supply. He cautioned that the loss of a well, a reduction in output, or other factors could quickly place the system in trouble. Given the lead time involved in developing a new source of supply, Mr. Brogan expressed his support for the Stipulation requirements addressing this issue.

We find the Stipulation's engineering-related provisions reasonable. We agree, given the tenuous state of the Company's current supply situation, the Company should begin exploring new supply sources diligently. The Stipulation



outlines steps toward ensuring the system's future sustainability. Should the existing supply be diminished or threatened during the Company's investigation, however, we reserve the right to revisit the Company's level of exploration or development. Not to be overlooked, we commend the Company and its current operator for managing the present supply and greatly reducing the percentage of water lost.

We find the arsenic treatment actions identified by the Stipulation are appropriate. The reporting schedule will allow ongoing review of the Company's progress.

Furthermore, we understand the Company currently does not maintain property or liability insurance coverage. We also understand that after September 11, 2001, insurance premiums have risen in general. Notwithstanding the cost issue, we believe it prudent for the Company to investigate whether coverage is available and report its findings by November 30, 2002.

Concerning rate case expenses in this docket, the Company originally submitted documentation in support of approximately \$9,983. As a result of discussions between the parties, the Company and Staff recommended approval of \$9,000 in rate case expenses and that it be recovered through a surcharge on customer bills over a period of eight quarters. This

translates into an \$11.72 surcharge per customer per bill for those eight quarters. We approve the rate case expenses as well as the methodology for collection recommended by the Company and Staff.

In light of the foregoing discussion, we find the proposed resolution between the Company and Staff in this case will result in just and reasonable rates and is in the public's interest.

**Based upon the foregoing, it is hereby**

**ORDERED**, that the Stipulation of the Parties reached between White Rock and Staff in this matter is APPROVED; and it is

**FURTHER ORDERED**, that rate case expenses in the amount of \$9,000 to be collected through a customer surcharge over a period of eight billing quarters is APPROVED; and it is

**FURTHER ORDERED**, that White Rock shall submit a compliance tariff within fourteen days in conformance with this order; and it is

**FURTHER ORDERED**, that the rate increase shall be effective as of the date of this order on a service rendered basis as provided for in the Stipulation.

By order of the Public Utilities Commission of New  
Hampshire this ninth day of August, 2002.

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Thomas B. Getz  
Chairman

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Susan S. Geiger  
Commissioner

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Nancy Brockway  
Commissioner

Attested by:

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Michelle A. Caraway  
Assistant Executive Director